

ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION

ANNUAL REPORT MAILING LABEL – MAKE CHANGES AS NECESSARY

E-01345A
Arizona Public Service Company
PO Box 53999
Station 9708
Phoenix, AZ 85072-3999

RECEIVED

APR 18 2011
ACC UTILITIES DIRECTOR

ANNUAL REPORT
Electric

FOR YEAR ENDING

12	31	2010
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FOR COMMISSION USE

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4-18-11

4-19-11

COMPANY INFORMATION

Company Name (Business Name) Arizona Public Service Company			
Mailing Address P.O. Box 53999			
Phoenix	(Street)	Arizona	85072-3999
(City)		(State)	(Zip)
602-250-1000	602-250-3003	N/A	
Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Cell No. (Include Area Code)	
Email Address			
Local Office Mailing Address Same as above			
	(Street)		
(City)		(State)	(Zip)
Local Office Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Cell No. (Include Area Code)	
Email Address			

MANAGEMENT INFORMATION

<input checked="" type="checkbox"/> Regulatory Contact:			
<input checked="" type="checkbox"/> Management Contact: Leland R. Snook, Director, State Regulation and Pricing			
	(Name)	(Title)	
400 N. 5th Street, MS 9708	Phoenix	Arizona	85004
(Street)	(City)	(State)	(Zip)
602-250-3730	602-250-3003		
Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Cell No. (Include Area Code)	
Email Address Leland.Snook@aps.com			
On Site Manager: Same as above			
	(Name)		
(Street)	(City)	(State)	(Zip)
Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Cell No. (Include Area Code)	
Email Address			

Statutory Agent: CT Corporation			
(Name)			
3225 N. Central Ave	Phoenix	Arizona	85012
(Street)	(City)	(State)	(Zip)
602-250-3252	N/A	N/A	
Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Cell No. (Include Area Code)	
Attorney: David P. Falck, Executive Vice President, General Counsel and Secretary			
(Name)			
400 N. 5th Street, MS 9068	Phoenix	Arizona	85004
(Street)	(City)	(State)	(Zip)
602-250-3252	N/A	N/A	
Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Cell No. (Include Area Code)	
Email Address David.Falck@aps.com			

OWNERSHIP INFORMATION

Check the following box that applies to your company:

<input type="checkbox"/> Sole Proprietor (S)	<input checked="" type="checkbox"/> C Corporation (C) (Other than Association/Co-op)
<input type="checkbox"/> Partnership (P)	<input type="checkbox"/> Subchapter S Corporation (Z)
<input type="checkbox"/> Bankruptcy (B)	<input type="checkbox"/> Association/Co-op (A)
<input type="checkbox"/> Receivership (R)	<input type="checkbox"/> Limited Liability Company
<input type="checkbox"/> Other (Describe) _____	

COUNTIES SERVED

Check the box below for the county/ies in which you are certificated to provide service:

<input checked="" type="checkbox"/> APACHE	<input checked="" type="checkbox"/> COCHISE	<input checked="" type="checkbox"/> COCONINO
<input checked="" type="checkbox"/> GILA	<input type="checkbox"/> GRAHAM	<input type="checkbox"/> GREENLEE
<input checked="" type="checkbox"/> LA PAZ	<input checked="" type="checkbox"/> MARICOPA	<input type="checkbox"/> MOHAVE
<input checked="" type="checkbox"/> NAVAJO	<input checked="" type="checkbox"/> PIMA	<input checked="" type="checkbox"/> PINAL
<input type="checkbox"/> SANTA CRUZ	<input checked="" type="checkbox"/> YAVAPAI	<input checked="" type="checkbox"/> YUMA
<input type="checkbox"/> STATEWIDE		

SERVICES AUTHORIZED TO PROVIDE

Check the following box/es for the services that you are authorized to provide:

- ☒ **Electric**
- ☒ Investor Owned Electric

☐ Rural Electric Cooperative

☐ Utility Distribution Company

☐ Electric Service Provider

☐ Transmission Service Provider

☐ Meter Service Provider

☐ Meter Reading Service Provider

☐ Billing and Collection

☐ Ancillary Services

☐ Generation Provider

☐ Aggregator/Broker

☐ **Other (Specify)**_____

STATISTICAL INFORMATION

Total number of customers	1,115,360	
Residential	989,989	
Commercial	120,372	
Industrial	3,474	
Public Street and Highway lighting	1,164	
Irrigation	310	
Resale	51	
Total kilowatt-hours sold	31,877,705,000	kWh
Residential	13,035,500,000	
Commercial	12,361,364,000	
Industrial	2,149,128,000	
Public Street and Highway lighting	142,516,000	
Irrigation	20,955,000	
Resale	4,168,242,000	
Maximum Peak Load	6,936	MW

COMPANY NAME: Arizona Public Service Company

UTILITY SHUTOFFS / DISCONNECTS

MONTH		Termination without Notice R14-2-211.B	Termination with Notice R14-2-211	OTHER
JANUARY		To be provided at a later date.		
FEBRUARY				
MARCH				
APRIL				
MAY				
JUNE				
JULY				
AUGUST				
SEPTEMBER				
OCTOBER				
NOVEMBER				
DECEMBER				
TOTALS →				

OTHER (description):

**VERIFICATION
AND
SWORN STATEMENT
Intrastate Revenues Only**

RECEIVED

7/27/10 1:10

ACCUITIES DIRECTOR

VERIFICATION

STATE OF Arizona

I, THE UNDERSIGNED
OF THE

COUNTY OF (COUNTY NAME) Maricopa
NAME (OWNER OR OFFICIAL) TITLE Denise R. Danner, Vice President, Controller and CAO
COMPANY NAME Arizona Public Service Company

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH 12	DAY 31	YEAR 2010
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HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENT OF TITLE 40, ARTICLE 8, SECTION 40-401, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS DURING CALENDAR YEAR 2010 WAS:

Arizona Intrastate Gross Operating Revenues Only (\$)

\$ 3,289,306,739

(THE AMOUNT IN BOX ABOVE

INCLUDES \$ 305,614,416

IN SALES TAXES BILLED, OR COLLECTED)

****REVENUE REPORTED ON THIS PAGE MUST INCLUDE SALES TAXES BILLED OR COLLECTED. IF FOR ANY OTHER REASON, THE REVENUE REPORTED ABOVE DOES NOT AGREE WITH TOTAL OPERATING REVENUES ELSEWHERE REPORTED, ATTACH THOSE STATEMENTS THAT RECONCILE THE DIFFERENCE. (EXPLAIN IN DETAIL)**

Denise R. Danner

SIGNATURE OF OWNER OR OFFICIAL

602-250-2747

TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS

15TH

DAY OF



MY COMMISSION EXPIRES JAN. 11, 2015

COUNTY NAME MARICOPA	
MONTH April	YEAR 2011

[Signature]
SIGNATURE OF NOTARY PUBLIC

**VERIFICATION
AND
SWORN STATEMENT
RESIDENTIAL REVENUE
INTRASTATE REVENUES ONLY**

RECEIVED
APR 18 2011
ACC UTILITIES DIRECTOR

STATE OF ARIZONA

I, THE UNDERSIGNED

OF THE

COUNTY OF (COUNTY NAME) Maricopa	
NAME (OWNER OR OFFICIAL) Denise R. Danner, Vice President, Controller	TITLE and CAO
COMPANY NAME Arizona Public Service Company	

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH 12	DAY 31	YEAR 2010
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HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENTS OF TITLE 40, ARTICLE 8, SECTION 40-401.01, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS RECEIVED FROM RESIDENTIAL CUSTOMERS DURING CALENDAR YEAR 2010 WAS:

ARIZONA INTRASTATE GROSS OPERATING REVENUES \$ 1,652,558,535

(THE AMOUNT IN BOX AT LEFT
INCLUDES \$ 148,521,610
IN SALES TAXES BILLED, OR COLLECTED

***RESIDENTIAL REVENUE REPORTED ON THIS PAGE
MUST INCLUDE SALES TAXES BILLED.**

Denise R. Danner
SIGNATURE OF OWNER OR OFFICIAL

602-250-2747
TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

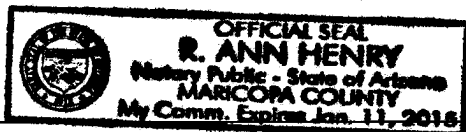
THIS 15TH DAY OF

(SEAL)

MY COMMISSION EXPIRES JAN. 11, 2015

NOTARY PUBLIC NAME R. Ann Henry	
COUNTY NAME MARICOPA	
MONTH April	.2011

[Signature]
SIGNATURE OF NOTARY PUBLIC



FINANCIAL INFORMATION

Attach to this annual report a copy of the Company year-end (Calendar Year 2010) financial statements. If you do not compile these reports, the Utilities Division will supply you with blank financial statements for completion and filing. **ALL INFORMATION MUST BE ARIZONA-SPECIFIC AND REFLECT OPERATING RESULTS IN ARIZONA.**

Attached are the Arizona Public Service Company Balance Sheets, Statements of Cash Flows, and Statements of Changes in Equity from the Arizona Public Service Company Form 10-K for the fiscal year ended December 31, 2010 (pages 157-160).

ARIZONA PUBLIC SERVICE COMPANY
CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	December 31,	
	2010	2009
ASSETS		
PROPERTY, PLANT AND EQUIPMENT (Notes 1, 6, 9 and 10)		
Plant in service and held for future use	\$ 13,197,254	\$ 12,781,256
Accumulated depreciation and amortization	<u>(4,510,591)</u>	<u>(4,326,908)</u>
Net	8,686,663	8,454,348
Construction work in progress	459,316	460,748
Palo Verde sale leaseback, net of accumulated depreciation of \$213,094 and \$204,328 (Note 20)	137,956	146,722
Intangible assets, net of accumulated amortization of \$329,444 and \$293,450	184,768	164,183
Nuclear fuel, net of accumulated amortization of \$85,270 and \$64,544	<u>108,794</u>	<u>118,243</u>
Total property, plant and equipment	<u>9,577,497</u>	<u>9,344,244</u>
INVESTMENTS AND OTHER ASSETS		
Nuclear decommissioning trust (Note 14)	469,886	414,576
Assets from risk management activities (Note 18)	39,032	28,855
Other assets	<u>71,428</u>	<u>68,839</u>
Total investments and other assets	<u>580,346</u>	<u>512,270</u>
CURRENT ASSETS		
Cash and cash equivalents	99,937	120,798
Customer and other receivables	288,323	280,226
Accrued unbilled revenues	103,292	110,971
Allowance for doubtful accounts	(7,646)	(6,063)
Materials and supplies (at average cost)	181,414	176,020
Fossil fuel (at average cost)	21,575	39,245
Assets from risk management activities (Note 18)	73,788	50,619
Deferred income taxes (Notes 4 and S-1)	74,747	53,990
Other current assets	<u>25,135</u>	<u>25,724</u>
Total current assets	<u>860,565</u>	<u>851,530</u>
DEFERRED DEBITS		
Regulatory assets (Notes 1, 3, 4 and S-1)	1,048,656	813,161
Income tax receivable (Notes 4 and S-1)	65,498	65,498
Unamortized debt issue costs	20,530	20,959
Other	<u>88,490</u>	<u>73,909</u>
Total deferred debits	<u>1,223,174</u>	<u>973,527</u>
TOTAL ASSETS	<u>\$ 12,241,582</u>	<u>\$ 11,681,571</u>

See Notes to Pinnacle West's Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Consolidated Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	December 31,	
	2010	2009
LIABILITIES AND EQUITY		
CAPITALIZATION		
Common stock	\$ 178,162	\$ 178,162
Additional paid-in capital	2,379,696	2,126,863
Retained earnings	1,403,390	1,250,126
Accumulated other comprehensive (loss):		
Pension and other postretirement benefits (Note 8)	(35,961)	(29,114)
Derivative instruments	(100,334)	(80,682)
Total shareholder equity	3,824,953	3,445,355
Noncontrolling interests (Note 20)	91,084	82,324
Total equity	3,916,037	3,527,679
Long-term debt less current maturities (Note 6)	2,948,991	3,180,406
Palo Verde sale leaseback lessor notes less current maturities (Notes 6 and 20)	96,803	126,000
Total capitalization	6,961,831	6,834,085
CURRENT LIABILITIES		
Current maturities of long-term debt (Note 6)	456,879	222,959
Accounts payable	218,491	213,833
Accrued taxes (Notes 4 and S-1)	106,431	158,051
Accrued interest	54,638	54,099
Customer deposits	68,312	70,780
Liabilities from risk management activities (Note 18)	58,976	55,908
Other current liabilities	132,170	124,995
Total current liabilities	1,095,897	900,625
DEFERRED CREDITS AND OTHER		
Deferred income taxes (Notes 4 and S-1)	1,865,359	1,582,945
Deferred fuel and purchased power regulatory liability (Notes 1 and 3)	58,442	87,291
Other regulatory liabilities (Notes 1, 3, 4, and S-1)	694,589	679,072
Liability for asset retirements (Note 12)	328,571	301,783
Liabilities for pension and other postretirement benefits (Note 8)	770,611	766,378
Liabilities from risk management activities (Note 18)	65,390	62,443
Customer advances	121,645	136,595
Coal mine reclamation	117,243	92,060
Unrecognized tax benefits (Notes 4 and S-1)	65,363	140,638
Other	96,641	97,656
Total deferred credits and other	4,183,854	3,946,861
COMMITMENTS AND CONTINGENCIES (SEE NOTES)		
TOTAL LIABILITIES AND EQUITY	\$ 12,241,582	\$ 11,681,571

See Notes to Pinnacle West’s Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company’s Consolidated Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 355,826	\$ 270,434	\$ 279,839
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization including nuclear fuel	471,226	445,988	424,414
Deferred fuel and purchased power	93,631	(51,742)	(80,183)
Deferred fuel and purchased power amortization	(122,481)	147,018	183,126
Allowance for equity funds used during construction	(22,066)	(14,999)	(18,636)
Deferred income taxes	224,095	192,914	145,157
Change in mark-to-market valuations	2,688	(6,939)	7,792
Changes in current assets and liabilities:			
Customer and other receivables	(49,956)	2,603	40,782
Accrued unbilled revenues	7,679	(10,882)	6,784
Materials, supplies and fossil fuel	12,276	(12,261)	(25,453)
Other current assets	589	(9,427)	128
Accounts payable	18,066	(22,129)	(5,915)
Accrued taxes	(51,620)	(61,078)	(12,377)
Other current liabilities	(570)	26,907	20,527
Change in margin and collateral accounts — assets	(9,937)	(13,206)	17,850
Change in margin and collateral accounts — liabilities	(88,315)	35,654	(132,416)
Change in regulatory liabilities	54,518	110,642	(12,129)
Change in long-term income tax receivable	—	(132,379)	—
Change in unrecognized tax benefits	(73,189)	137,478	(92,064)
Change in other long-term assets	(41,989)	(53,734)	14,340
Change in other long-term liabilities	(85,136)	14,097	58,219
Net cash flow provided by operating activities	<u>695,335</u>	<u>994,959</u>	<u>819,785</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(747,967)	(754,301)	(910,189)
Contributions in aid of construction	32,754	53,525	60,292
Allowance for borrowed funds used during construction	(16,479)	(10,386)	(14,313)
Proceeds from nuclear decommissioning trust sales	560,469	441,242	317,619
Investment in nuclear decommissioning trust	(584,885)	(463,033)	(338,361)
Other	8,576	(4,667)	5,517
Net cash flow used for investing activities	<u>(747,532)</u>	<u>(737,620)</u>	<u>(879,435)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of long-term debt	—	863,780	—
Repayment of long-term debt	(27,694)	(365,696)	(48,460)
Short-term borrowings and payments — net	—	(521,684)	303,684
Equity infusion	252,833	—	7,601
Dividends paid on common stock	(182,400)	(170,000)	(170,000)
Noncontrolling interests	(11,403)	(14,485)	(13,782)
Net cash flow provided by (used for) financing activities	<u>31,336</u>	<u>(208,085)</u>	<u>79,043</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(20,861)</u>	<u>49,254</u>	<u>19,393</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>120,798</u>	<u>71,544</u>	<u>52,151</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 99,937</u>	<u>\$ 120,798</u>	<u>\$ 71,544</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Income taxes, net of refunds	\$ 81,339	\$ 13,555	\$ 56,728
Interest, net of amounts capitalized	\$ 208,251	\$ 194,346	\$ 182,053

See Notes to Pinnacle West's Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Consolidated Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(dollars in thousands)

	Year Ended December 31,		
	2010	2009	2008
COMMON STOCK	<u>\$ 178,162</u>	<u>\$ 178,162</u>	<u>\$ 178,162</u>
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	2,126,863	2,117,789	2,105,466
Equity infusion	252,833	—	7,601
Other	—	9,074	4,722
Balance at end of year	<u>2,379,696</u>	<u>2,126,863</u>	<u>2,117,789</u>
RETAINED EARNINGS			
Balance at beginning of year	1,250,126	1,168,901	1,076,557
Net income attributable to common shareholder	335,663	251,225	262,344
Dividends on common stock	(182,400)	(170,000)	(170,000)
Other	1	—	—
Balance at end of year	<u>1,403,390</u>	<u>1,250,126</u>	<u>1,168,901</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)			
Balance at beginning of year	(109,796)	(125,702)	(8,744)
Pension and other postretirement benefits (Note 8):			
Unrealized actuarial loss, net of tax benefit of \$(6,344), \$(2,938) and \$(5,075)	(9,684)	(4,571)	(7,597)
Amortization to income:			
Actuarial loss, net of tax benefit of \$1,658, \$1,387 and \$1,393	2,541	2,126	2,130
Prior service cost, net of tax benefit of \$193, \$190 and \$189	295	291	289
Derivative instruments:			
Net unrealized gain (loss), net of tax (benefit) of \$(61,358), \$(61,317) and \$(56,149)	(93,929)	(94,008)	(85,670)
Reclassification of net realized (gains) losses to income, net of tax (expense) benefit of \$48,462, \$73,261 and \$(16,890)	74,278	112,068	(26,110)
Balance at end of year	<u>(136,295)</u>	<u>(109,796)</u>	<u>(125,702)</u>
NONCONTROLLING INTERESTS			
Balance at beginning of year	82,324	77,601	73,887
Net income attributable to noncontrolling interests	20,163	19,209	17,495
Net capital activities by noncontrolling interests	(11,403)	(14,486)	(13,781)
Balance at end of year	<u>91,084</u>	<u>82,324</u>	<u>77,601</u>
TOTAL EQUITY	<u>\$ 3,916,037</u>	<u>\$ 3,527,679</u>	<u>\$ 3,416,751</u>
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON SHAREHOLDER			
Net income attributable to common shareholder	\$ 335,663	\$ 251,225	\$ 262,344
Other comprehensive income (loss)	(26,499)	15,906	(116,958)
Total comprehensive income attributable to common shareholders	<u>\$ 309,164</u>	<u>\$ 267,131</u>	<u>\$ 145,386</u>

See Notes to Pinnacle West's Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Consolidated Financial Statements.